

Message Text

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ACTION EB-07

INFO OCT-01 ARA-06 ISO-00 SSO-00 NSCE-00 USIE-00 INRE-00

PA-01 PRS-01 FEA-01 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 FPC-01 H-02 INR-07 INT-05

L-03 NSAE-00 NSC-05 OMB-01 PM-04 SAM-01 OES-03 SP-02

SS-15 STR-04 TRSE-00 /082 W
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FM AMEMBASSY BUENOS AIRES

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E. O. 11652: N/A

TAGS: EFIN, ENRG, ARA

SUBJECT: CIEC: IMPACT OF HIGHER OIL PRICES ON ECONOMIC DEVELOPMENT

REF: STATE 006381

1. BEGIN SUMMARY: ARGENTINA'S ECONOMY AND BALANCE OF PAYMENTS HAVE DETERIORATED BADLY DURING LAST TWO YEARS. HIGHER OIL PRICES HAVE BEEN NEGATIVE FACTOR, BUT MOST IMPORTANT CAUSES OF DOWNTURN HAVE BEEN INAPPROPRIATE DOMESTIC ECONOMIC POLICIES AND CONTINUING DOMESTIC POLITICAL INSTABILITY. OIL IMPORT BILL LIKELY CONTINUE RISE OVER NEXT SEVERAL YEARS AND HIGH COST OF OIL LIKELY BECOME INCREASING BOTTLENECK FOR DEVELOPMENT. END SUMMARY.

2. DATA: ARGENTINE PETROLEUM IMPORTS AND EXPORTS FOR YEARS 1972-76 SHOWN BELOW.

IMPORTS	MIL.\$	1972		MIL.\$	1973	
	VALUE	MIL/BARREL		\$/BARREL	VALUE	MIL/BARREL \$/BARREL
CRUDE	34.1	10.7	3.2	115.1	21.4	5.4

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PRODUCTS 20.4 5.0 --- 55.3 8.2 ---

TOTAL 54.5(2.9)15.7 --- 170.4(7.6)29.6 ---

EXPORTS CRUDE 0.4 9.2 2.0 0.8 0.2 4.0

PRODUCTS 5.0 1.3 --- 5.4 0.6 ---

TOTAL 5.4 1.5 --- 6.2 0.8 ---

1974 1975

IMPORTS

CRUDE 342.8 22.0 15.6 200.0 13.2 15.1

PRODUCTS 102.3 6.9 ---- 138.0 9.4 ---

TOTAL 445.1(12.5')28.9 ---- 338.0(9.7')22.6 ---

EXPORTS CRUDE 6.3 0.6 10.5 5.6 0.4 14.0

PRODUCTS 7.8 0.6 --- 6.9 0.5 ---

TOTAL 14.1 1.2 --- 12.5 0.9 ---

1976"

IMPORTS

CRUDE 237.5 15.1 15.7

PRODUCTS 122.8 3.8 ---

TOTAL 450.3 18.9 ---

EXPORTS CRUDE

PRODUCTS

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TOTAL

' PERCENT OF TOTAL IMPORT VALUE

" SOURCE OF PROJECTIONS: ESSO

3. BALANCE OF PAYMENTS

ARGENTINA'S BALANCE OF PAYMENTS RESULTS EXCELLENT IN 1973, MEDIOCRE IN 1974 AND EXTREMELY POOR IN 1975. HIGHER INTERNATIONAL OIL PRICES WERE FACTOR. DURING 1973-1975, ARGENTINA SPENT NEARLY ONE BILLION DOLLARS FOR PETROLEUM IMPORTS DESPITE FACT 1975 PETROLEUM EXPENDITURES DOWN AS RESULT DOMESTIC RECESSION AND LIQUIDATION DOMESTIC CRUDE OIL STOCKS. HOWEVER, MAJOR CAUSES BALANCE OF PAYMENTS DETERIORATION HAVE BEEN OF DOMESTIC, RATHER THAN INTERNATIONAL, ORIGIN AND INCLUDE MAINTENANCE OVERVALUED EXCHANGE RATE AND EXPANSIVE DOMESTIC POLICIES.

4. DOMESTIC ECONOMY

DOMESTIC ECONOMY GREW AT 7.2 PERCENT IN 1974, THEN FELL OFF TO ESTIMATED -1 PERCENT IN 1975. INFLATION IN 1975 SOARED TO RECORD 335 PERCENT. SLUGGISH GROWTH AND CONTINUED HIGH INFLATION ANTICIPATED FOR 1976. AS IN CASE OF BALANCE OF PAYMENTS, HIGHER OIL PRICES HAVE BEEN NEGATIVE FACTOR. HOWEVER, MAJOR CAUSES OF CURRENT ECONOMIC DISARRAY INCLUDE INADEQUATE PRODUCTIVITY AND INVESTMENT, ENORMOUS FISCAL DEFICIT, CONTINUING LABOR PROBLEMS, AND EXPANSIVE DOMESTIC ECONOMIC POLICIES.

5. ENERGY POLICY

GOA ENERGY POLICY SEEKS TO 1) DIVERSIFY ENERGY PRODUCTION FROM PETROLEUM TO HYDROELECTRIC, NUCLEAR AND NATURAL GAS SOURCES, WL CURB CONSUMPTION AND 3) STIMULATE PRODUCTION. PRICES OF MOST ENERGY PRODUCTS MAINTAINED AT SUBSIDIZED LEVELS FOR DOMESTIC POLITICAL AND SOCIAL PURPOSES, ALTHOUGH

GOA HAS RECENTLY RAISED GASOLINE PRICES SHARPLY TO INCREASE FISCAL REVENUE AND LIMIT CONSUMPTION. IN GENERAL, WIDE GAP CONTINUES EXIST BETWEEN GOA RHETORIC AND PERFORMANCE ON LIMITED OFFICIAL USE

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ENERGY PROGRAMS.

6. PETROLEUM PRODUCTION

DOMESTIC PETROLEUM PRODUCTION TRENDS HAVE BEEN STRADILY DOWN IN RECENT YEARS AS INDICATED BY FOLLOWING FIGURES: 1975, -5.9 PERCENT, 1974, -1.7 PERCENT, 1973, -3.1 PERCENT. REASONS FOR DECLINING PRODUCTION INCLUDE 1) INADEQUATE EXPLORATION, 2) INSUFFICIENT WELL DRILLING AND 3) DELAYS WITH SECONDARY RECOVERY OROGRAMS. OFFSHORE EXPLORATION EFFORTS ONLY JUST BEGINNING. DESPITE DECLINING PRODUCTION, STATE HAS CONTINUED TO EXPAND ITS ROLE IN PETROLEUM SECTOR, REDUCING AND DISCOURAGING PARTICIPATION OF PRIVATE CAPITAL.

7. PUBLIC ATTITUDES

ARGENTINA REMAINS ISOLATED FROM WORLD ECONOMIC TRENDS.
GENERAL PUBLIC HAS LITTLE APPRECIATION IMPACT OPEC OIL
PRICE INCREASES ON ARGENTINA OR INDUSTRIALIZED COUNTRIES.
COMMON VIEW IS THAT ARGENTINA ONLY MINIMALLY AFFECTED BY
THESE DEVELOPMENTS SINCE IT ABOUT 88 PERCENT SELF-SUFFICIENT
IN OIL PRODUCTION.

8. FOREIGN POLICY ASPECTS

EARLIER IN PERONIST GOVERNMENT, ARGENTINA ACTIVELY
COURTED CLOSER RELATIONS WITH ARAB COUNTRIES IN
EXPECTATION RECEIVING ARAB OIL, INVESTMENTS AND FINANCIAL
ASSISTANCE. THESE HAVE NOT MATERIALIZED, HOWEVER. GOA
NOW ACTIVELY PROMOTING CLOSER RELATIONSHIP WITH VENEZUELA
WHICH POTENTIAL SOURCE OIL AND BADLY NEEDED FINANCIAL
ASSISTANCE.

9. FUTURE

DOWNWARD TREND IN DOMESTIC OIL PRODUCTION LIKELY CONTINUE
AS LONG AS GOA MAINTAINS NATIONALISTIC ATTITUDE TOWARD
PETROLEUM SECTOR DISCOURAGING PARTICIPATION PRIVATE CAPITAL.
DOMESTIC ENERGY DEMAND WILL INCREASE IN FUTURE PARTICULARLY
AS ECONOMY BEGINS TO REBOUND FROM CURRENT SLUMP. RESULT,
IN OPINION OF EXPERTS, WILL BE WIDENING OIL IMPORT GAP
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AND SUBSTANTIALLY HIGHER OIL IMPORT BILL OVER NEXT SEVERAL
YEARS. IF CURRENT TRENDS CONTINUE, HIGH COST OF OIL COULD
BECOME INCREASING BOTTLENECK FOR DEVELOPMENT. ARGENTINA'S
OIL IMPORT BILL COULD EASILY REACH ONE BILLION DOLLARS
ANNUALLY BY 1980.
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